

Message Text

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PAGE 01 MONTEV 02732 01 OF 02 151550Z
ACTION ARA-14

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FM AMEMBASSY MONTEVIDEO
TO SECSTATE WASHDC 7051
INFO AMEMBASSY BUENOS AIRES
AMEMBASSY PORT AU PRINCE

LIMITED OFFICIAL USE SECTION 1 OF 2 MONTEVIDEO 2732

E.O. 11652: N/A
TAGS: EAGR
SUBJ: GOU APPROVES TURNABOUT TO LIBERAL AGRICULTURAL POLICIES

REF: (A) 77 MONTEVIDEO 4355 (B) MONTEVIDEO 1292 (C) MONTEVIDEO 1699

1. SUMMARY. RECENTLY ENACTED GOU PROPOSALS SHOULD WORK A BASIC CHANGE IN THE PROSPECTS FOR URUGUAYAN AGRICULTURAL PRODUCTION, PROVIDING AN IMPORTANT INCENTIVE FOR INVESTMENT AND ADOPTION OF MODERN METHODS IN THE LIVESTOCK SECTOR PARTICULARLY. THE QUESTION IS WHETHER THE LIBERALIZING, FREE MARKET PROGRAM CAN BE EFFECTIVELY IMPLEMENTED, ESPECIALLY BY A MINISTRY DECIMATED BY RECENT POOR ADMINISTRATION, AND BY A GOVERNMENT WITH A PENCHANT FOR CONTROL. IT DOES, HOWEVER, CLEARLY REINFORCE THE POSITIONS OF MINISTER OF ECONOMY ARISMENDI AND HIS PREDECESSOR, VEGH VILLEGAS, WHOSE FORCEFUL BACKING ACHIEVED MILITARY SUPPORT FOR THESE MEASURES. END SUMMARY.

2. THE GOU COUNCIL OF STATE HAS NEARLY FINISHED WORK ON A PACKAGE OF MEASURES DESIGNED TO SAVE THE COUNTRY'S AGRICULTURAL SECTOR. THE LIBERALIZING MEASURES, ESPECIALLY FOR
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PAGE 02 MONTEV 02732 01 OF 02 151550Z

LIVESTOCK PRODUCTION AND PROCESSING, RESPOND POSITIVELY TO THE ANALYSIS OF THE SECTOR'S ILLS PROVIDED RECENTLY BY THE INFLUENTIAL RURAL ASSOCIATION (SEE REFTEL (C)). THE PROGRAM INCLUDES THE FOLLOWING ACTION:

(A) WITH REGARD TO THE LIVESTOCK INDUSTRY:

-- FREE THE PRICE PAID TO PRODUCERS BY SLAUGHTER AND PACKING HOUSES;

-- CLOSE THE MEAT LINE AT THE INEFFICIENT STATE MEAT-PACKING/ COLD STORAGE PLAN NOW SUPPLYING ALL OF MONTEVIDEO;

-- PERMIT ANY SLAUGHTER/PACKING PLANT TO SUPPLY MONTEVIDEO;

-- CLOSE OR RETURN TO PRIVATE OWNERSHIP OTHER GOU-RUN MEAT PLANTS;

-- CUT OFF THE SUBSIDY TO INEFFICIENT PACKING HOUSES IMPLICIT IN THE FIXED PRICE SYSTEM;

-- PERMIT OWNERS OF MEAT-PACKING PLANTS TO REGAIN FINANCIAL CONTROL OF THEIR PLANTS, NOW CONTROLLED BY THE BANK OF THE REPUBLIC;

-- OPEN THE ALTERNATIVE FOR THE PLANTS FREELY TO SELL EITHER DOMESTICALLY OR EXPORT, AND

-- REMOVE TWO CURRENT EXPORT TAXES.

(B) WITH REGARD TO FIELD CROPS, FRUITS AND VEGETABLES:

--ERASE PRESENT PRICE CONTROLS AND PERMIT UNHINDERED EXPORTA- LIMITED OFFICIAL USE

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PAGE 03 MONTEV 02732 01 OF 02 151550Z

TION AND IMPORTATION;

-- PERMIT COMPETING IMPORTS BUT ONLY WITH A 30 PERCENT TARIFF TO FAVOR DOMESTIC PRODUCTION;

-- DROP SUPPORT AND ORIENTATION PRICES, AND

-- STOP SUPPLY MANAGEMENT THROUGH GOVERNMENT PURCHASES EXCEPT WHEN PRODUCTION SELF-SUFFICIENCY IS DECLARED TO BE IN THE NATIONAL INTEREST.

(C) WITH REGARD TO AGRICULTURAL PRODUCTION GENERALLY:

-- REMOVE ALL TARIFFS FROM AGRICULTURAL INPUTS, LEAVING ONLY A 10 PERCENT SURCHARGE ON THOSE IMPORTED FINISHED AGRICULTURAL IMPLEMENTS (INCLUDING ESPECIALLY TRACTORS) FOR WHICH THERE IS LOCAL ASSEMBLY, AND

-- LEAVE THE OVERALL WEIGHT OF TAXATION ON THE SECTOR ABOUT THE SAME.

3. THERE WERE TWO REASONS WHY THIS PROGRAM HAS BEEN ADOPTED

BY THE GOU: FIRST, BECAUSE GOVERNMENT INTERVENTION AND FIXED PRICES COMBINED WITH TWO CONSECUTIVE YEARS OF BAD WEATHER TO BRING THE SECTOR TO THE VERGE OF FINANCIAL COLLAPSE. AS BACKGROUND, ONE CAN NOTE ALSO THAT THERE HAS BEEN ONLY A 4 PERCENT COMBINED GROWTH IN CATTLE AND SHEEP PRODUCTION -- THE ECONOMY'S BASIC ACTIVITY -- IN URUGUAY SINCE 1951 AND OVERALL SECTOR GROWTH DURING THE PAST 12 YEARS HAS AVERAGED ONLY ONE PERCENT ANNUALLY. THE SECOND REASON IS THAT MINISTER OF ECONOMY AND FINANCE VALENTIN ARISMENDI AND HIS PREDECESSOR, ALEJANDRO VEGH VILLEGAS, SKILLFULLY LOBBIED THE MILITARY LEADERSHIP INTENSIVELY OVER A PERIOD OF MONTHS TO FINALLY CONVINCE THEM THAT THIS LIBERALIZATION WAS NECESSARY TO SAVE URUGUAYAN AGRICULTURE. IN THIS EFFORT THEY HAD EFFECTIVE ASSISTANCE FROM A SERIES OF THREE AID-FINANCED STUDIES WHICH LIMITED OFFICIAL USE

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PAGE 04 MONTEV 02732 01 OF 02 151550Z

SHOWED THE DRAIN OF IMPORT SUBSTITUTION POLICIES ON AGRICULTURE, SOME SPECIFIC SHORTCOMING IN POLICY AND MINISTRY ORGANIZATION, AND, FINALLY, THE IMPRESSIVE COMPARATIVE DISADVANTAGE THE URUGUAYAN PRODUCER FACES VIS-A-VIS AUSTRALIA, NEW ZEALAND, ETC. THE STUDIES ALSO SHOWED THAT CURRENT RETURN ON AGRICULTURAL CAPITAL WAS LESS THAN 2 PERCENT.

4. THE LIBERALIZING EFFECT OF THESE POLICIES AND THEIR FREE MARKET ORIENTATION FOLLOWS THE LINES SET OUT IN THE GOU'S SAN MIGUEL AND LA NIRVANA GENERAL PLANNING CONFERENCE OF 1973-1974. NEVERTHELESS, THERE REMAINS A STRONG PREFERENCE OF STATIST ECONOMIC POLICIES AMONG THE CURRENT MILITARY LEADERSHIP WHICH IS ALSO INCREASING INVESTMENT IN STATE ENTERPRISES SUCH AS THE PETROLEUM AGENCY, THE STATE-OWNED AIRLINE, THE STATE-OWNED PRINTING OFFICE, THE NATIONAL ELECTRIC UTILITY, ETC.

5. IMPLICATIONS FOR URUGUAY: PRICE EFFECTS ALREADY VISIBLE FOR THE CONSUMER INCLUDE AN IMMEDIATE 13 PERCENT RISE IN THE COST OF MEAT, WITH LATER INCREASES EXPECTED TO BRING LOCAL PRICES UP TO INTERNATIONAL LEVELS. PRICE EFFECTS FOR GRAINS AND FRUITS AND VEGETABLES ARE NOT NOW CLEAR. THE JOBS OF SOME 1,400 WORKERS IN THE MEAT-PACKING INDUSTRY ARE ALREADY SPECIFICALLY TO BE ELIMINATED BY THE PROPOSALS. MORE WILL BE AFFECTED BY POSSIBLE CLOSURE OF PERHAPS TWO OR THREE MORE ANCIENT PLANTS. HOW QUICKLY NEW SLAUGHTER FACILITIES MIGHT

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PAGE 01 MONTEV 02732 02 OF 02 151554Z
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TO SECSTATE WASHDC 7052
INFO AMEMBASSY BUENOS AIRES
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LIMITED OFFICIAL USE SECTION 2 OF 2 MONTEVIDEO 2732

BE BUILT OR PACKING HOUSE PRODUCTION MIGHT INCREASE TO
CREATE NEW EMPLOYMENT CANNOT BE PREDICTED. THE KEY PURPOSE
FOR THE WHOLE PACKAGE WAS TO INCREASE INCOME TO AGRICULTURAL
PRODUCERS TO STIMULATE INCREASED INVESTMENT IN TECHNOLOGY AND
IMPROVEMENTS WITH RESULTANT INCREASES IN PRODUCTION. ALREADY
VISIBLE IS AN INCREASE IN THE PRICE OF AGRICULTURAL LAND,
INDICATING SOME INVESTOR CONFIDENCE IN THE SUCCESS OF THE
PROGRAM.

6. IMPLICATIONS FOR THE U.S.: IN TERMS OF COMMERCIAL COM-
PETITION OF THE U.S. WHICH SHOULD FLOW FROM THESE MEASURES,
LITTLE CONCRETE CAN BE SAID AT THIS POINT. THERE ARE AT LEAST
INCREASED CHANCES FOR HIGHER INTERNATIONAL SALES OF URUGUAYAN
MEAT OVER THE NEXT SEVERAL YEARS. IF, AS SOME SUSPECT, THE
GOVERNMENT MAY PROVIDE LESS ARTIFICIAL STIMULUS TO DOMESTIC
GRAIN PRODUCTION, THEN THERE MAY BE MORE CHANCE OF U.S. WHEAT
SALES, AS IN THE CURRENT YEAR.

7. MORE IMPORTANT IS ARISMENDI'S COMMITMENT TO THE AGRICUL-
TURAL SECTOR TO (QUOTE) INTENSIFY THE GOU CAMPAIGN TO PROVIDE
ORIENTATION AND INFORMATION, AND AN EFFORT WILL BE MADE TO
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PAGE 02 MONTEV 02732 02 OF 02 151554Z

GIVE A STRONG STIMULUS TO THE FORMATION OF COOPERATIVES AND
OTHER FORMS OF ORGANIZATION OF PRODUCERS SO THAT THEY CAN
BECOME THE MEANS OF COMMUNICATING NEW TECHNOLOGY THAT SHOULD
BE APPLIED, NEW MARKET STUDY TECHNIQUES, AND THE CHANGING OF
THE MARKET STRUCTURES WHICH TODAY HANDLE AGRICULTURAL PRODUC-
TION. (UNQUOTE) IF IMPLEMENTED, THIS POLICY SHOULD OPEN THE
WAY TO ADDED SALES F U.S. MACHINERY AND TECHNOLOGY AND
INPUTS TO IMPROVE AGRICULTURAL PRODUCTION GENERALLY.

8. A FURTHER HELPFUL EFFECT COULD BE TO MAKE POSSIBLE THE GOVERNMENT SUPPORT NECESSARY FOR THE THREE AID LOANS WHOSE PROGRESS HAS BEEN STALLED. THE GOU HAS ALREADY APPROVED MEASURES TO REORGANIZE THE MINISTRY OF AGRICULTURE AND TO PAY ITS STAFF ON A SPECIAL INCENTIVE SCALE. THESE MEASURES WERE THOSE WHICH THE EMBASSY HAD ALREADY LISTED AS ESSENTIAL BASES FOR IMPLEMENTATION OF THE AID LOANS, AS IT PREPARED FOR DISCUSSION OF THEIR FUTURE WITH THE STILL-TO-BE-NAMED NEW AGRICULTURE MINISTER. WHETHER THEY WILL BE SUFFICIENT AS IMPLEMENTED REMAINS TO BE SEEN.
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